



City of Rockville  
Mayor and Council  
Agenda Item

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<b>For the meeting on:</b>	November 26, 2007
<b>Agenda Item Type:</b>	Presentation
<b>Department:</b>	Finance
<b>Responsible staff:</b>	Stacey Tate, Budget and Finance Officer phone: (240) 314 - 8407 email: state@rockvillemd.gov

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## Subject

FY 2009 Budget Preview.

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## Recommendation

Staff recommends that the Mayor and Council review and file the FY 2009 Budget Preview presentation, approve the budget principles for preparing the FY 2009 proposed budget, and offer guidance as necessary.

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## Discussion

It is the City's practice to provide the Mayor and Council with a preview of the upcoming year's budget in the late fall. According to the adopted Financial Management Policies,

"The City Manager will meet with the Mayor and Council Members at least one month prior to the preparation of the proposed budget to review and deliberate all policy guidelines that may affect the proposed budget." (source: FY 2008 Adopted Operating Budget, page 2-7)

Tonight's presentation seeks the Mayor and Council's concurrence and guidance with regard to policies and principles upon which the FY 2009 budget will be developed. It is expected that the Mayor and Council may provide additional guidance with respect to program and project priorities as an outcome of the retreat with the City Manager scheduled for January 11-13, 2008. There will be other opportunities for the Mayor and Council to provide additional guidance and direction during the Mayor and Council budget preview scheduled for mid-February, or during any of the other Mayor and Council worksessions or public hearings that are listed in the proposed budget calendar at the end of the Budget Preview presentation.

The proposed budget principles for preparing the FY 2009 Proposed Operating Budget are presented below as "Budget Principles: Revenues" and "Budget Principles: Expenditures." The FY 2009 budget principles are also included in the attached Budget Preview presentation.

## Budget Principles: Revenues

The General Fund is the primary operating fund of the City and is used to account for the majority of the

City's normal activities. Many of the City's administrative functions are supported through the General Fund. The major revenue sources for the General Fund include: property taxes, income taxes, gasoline and motor vehicle taxes, tax duplication payment from Montgomery County, and charges or user fees for services. The overriding principle is that FY 2009 revenues are estimated conservatively to ensure that sufficient revenues are available throughout the year to support FY 2009 expenditures.

#### Property Taxes

FY 2008 property taxes (both real and personal) are expected to generate \$32.0 million or 54.4 percent of the City's adopted General Fund revenues. For FY 2009, it is estimated that real property tax revenue will increase by approximately \$2.5 million under the current rate of \$0.302 per \$100 of assessed valuation. This increase would bring the total property tax revenue to \$34.5 million. The current projected increase in the tax base is fueled by a combination of development activities and assessments of existing property.

For the last two fiscal years, the Mayor and Council have approved a one-penny reduction in the real property tax rate. Due to the increases in assessments which are capped at 10 percent, this has provided some element of relief to taxpayers while allowing revenues to still increase. In FY 2008, the Mayor and Council also provided a one-time \$100 credit per residential property, and continued with the Homeowners' Tax Credit Program targeting low-income taxpayers.

For FY 2009, each penny in tax rate reduction will cost approximately \$1.0 million, each \$10 in tax credits to residential property owners will cost approximately \$150,000, and the Homeowners' Tax Credit Program will cost approximately \$300,000 under the current assumptions. Staff recommends that the City continue with the Homeowners' Tax Credit Program; however staff recommends that other tax relief (rate reduction or one-time credit) only be considered in conjunction with reductions in current programs and/or service levels. Continued erosion of the City's tax revenues without a reduction in service levels or elimination of programs cannot be sustained for FY 2009. Uncertainties surrounding other General Fund revenues and expenses reinforce this reality. In the ensuing months prior to budget adoption, the revenue picture for the current fiscal year and FY 2009 will become clearer and opportunities for tax relief can be reassessed. At this time, staff recommends that the budget be prepared using the current property tax rate, and without a one-time credit.

#### Income Taxes

The income tax is the second largest source of revenue to the General Fund, constituting 14.1 percent of the FY 2008 adopted General Fund budget. It is estimated that income tax revenue will increase by approximately \$1.0 million from FY 2008 to FY 2009 bringing the total to \$9.3 million. Income tax revenue consists of the City's share of income taxes received by the State of Maryland for returns filed from Rockville. Maryland counties are able to impose an income tax that is separate from the State income tax. According to Maryland law, municipalities receive 17 percent of county income tax collected within the municipality. Montgomery County's income tax rate is currently 3.2 percent. There has been reasonable growth in income tax receipts in the past few years due to the City's population growth and strong regional economy. The actual FY 2007 income tax revenues were \$9.8 million. The City anticipates that this moderate growth trend will continue in FY 2008 and into FY 2009.

#### Gasoline and Motor Vehicle Taxes

The City's share of gasoline tax and vehicle registrations collected by the State is given to the City in the form of highway user revenue. The highway user revenue for the FY 2008 budget was based on a Maryland State Highway Administration (SHA) estimate of registration and mileage figures. The FY 2009 budget assumes the same \$3.2 million in revenue because the City does not anticipate a material change in these figures.

#### Tax Duplication

This revenue is received from Montgomery County as a partial reimbursement for tax duplication. Several factors, such as number of streetlights and number of miles of streets maintained by the City, determines

what the City receives each year. The County is currently working on a new plan to determine the amount of tax duplication that municipalities will receive. Until more information becomes available, the City will assume the same \$2.2 million in tax duplication revenue for FY 2009 as budgeted in FY 2008; however, this could change to the City's detriment.

#### Other Revenues

Other revenue sources, such as user fees, will be analyzed during the FY 2009 budget process to ensure that the City is meeting or exceeding cost recovery goals, and that City fees are consistent with the current market conditions. Since the City is heavily dependent on property taxes as the main revenue source, the City will continue to work together with the Maryland Municipal League to seek legislation that will allow the City to control and authorize additional revenue sources. In addition, the City is currently working on a Development Impact Fee study that will be presented to the Mayor and Council in spring 2008. Development impact fees relate to one-time charges that offset the additional public service costs of new development.

#### State of Maryland Budget Shortfall

The State is facing a well advertised \$1.7 billion structural budget shortage. In the past the State has balanced their budget by reducing funding for counties and municipalities. The City's revenue sources that could be directly impacted for FY 2009 are Program Open Space (funds CIP for parks projects), highway user (as described above), and police protection grant (grant that provides funding for police officers). In total, these revenue sources currently provide an estimated \$3.8 million to the Operating budget and \$1.1 million to the CIP budget in FY 2008. Indirectly, the City might also receive less in grants and tax duplication from Montgomery County as a result of the State's budget shortfall. Although it is too early to know the exact impact of what will result from the State's budget deliberations, there will likely be impacts on the City's FY 2009 budget.

### **Budget Principles: Expenditures**

The General Fund constitutes 62.8 percent of the City's total adopted FY 2008 expenditure budget. The major cost drivers for the General Fund for FY 2009 include: rising costs to maintain program / service levels, investment in additional workspace, increases in commodity and supply prices, funding salaries and benefits, funding retiree health care costs, transfer to the CIP, transfer to the Parking Fund, and funding future Mayor and Council priorities.

#### Maintaining Program / Service Levels

Over the past few years the City has grown with the addition of the King Farm and Falls Grove neighborhoods, and now Town Center. New construction continues elsewhere in the City, and ground breaking has taken place at Twinbrook Commons. The resulting increases in the population, numbers of streets and parks, and new facilities require that the City government grow to keep up with the additional demand. Staff recommends that the FY 2009 General Fund budget funds programs and services to maintain current programs and service levels, implement Mayor and Council priorities (sustainability strategy, citizen survey follow-up, etc.), and comply with State and Federal mandates. Any additional program or service enhancements, or additional resources required to maintain current program or services, will be supported by performance and workload measures to demonstrate the additional benefit to the community.

In addition, staff will be reviewing the positions that were "frozen" as part of the FY 2008 budget deliberations to evaluate the impact on current programs and services. Any additional police officers recommended for FY 2009 will likely be funded in the Speed Camera Program, and not in the General Fund. The City has held back over the past several years on staffing as it conserved its resources to devote to developing Town Center. Many needed positions have not been included in past budgets due to physical space and revenue constraints. These positions support a wide variety of programs and services. The potential acquisition of new workspace, as discussed below, should help alleviate some of the

significant space shortages that currently exist.

#### Investment in Additional Workspace

The City has limited workspace to accommodate the staffing levels required to keep up with the City's service demands. Lack of adequate space impacts all departments, and it is particularly acute for the Police Department. The City will require a considerable investment of resources in order to meet the current demand and future needs. Options available that are being considered are leasing, buying or possibly constructing additional workspace. Current projects that are in the CIP and are moving forward include the Gude Drive Maintenance Facility and the potential acquisition of the Old Post Office for conversion to Police headquarters.

#### Increases in Commodity and Supply Prices

Commodity and supply prices continue to increase and are a major factor when determining the total cost to maintain current programs and service levels. For the FY 2009 budget, the price of electricity, gasoline/oil, heating fuel, and chemicals will likely increase as market conditions continue to change. Staff recommends funding the additional commodity and supply increases that are necessary to maintain current programs and service levels. Although the budgetary impact resulting from the commodity and supply increases is unknown at this time, staff will continue to monitor the prices in the markets and develop the FY 2009 budget accordingly.

#### Salaries and Benefits

For the FY 2009 budget, staff recommends maintaining competitive salaries to attract and retain high performing employees in order to deliver high quality services to City residents. In order to maintain and offer competitive salaries as compared to other governments, the City is currently working on a compensation and benefits study that may have an impact on the FY 2009 budget. Although the budgetary impact of this study is unknown at this time, staff recommends a 2.5 percent cost of living adjustment which is consistent with prior years, and some minor adjustments to the pay-for-performance program. Overall, the budget impact for current staff would total \$1.1 million for FY 2009.

Other budgetary impacts to personnel that are unknown at this time include the AFSCME contract that will be negotiated prior to the adoption of the FY 2009 budget and the outcome of the City's meet and confer with the Fraternal Order of Police (FOP).

#### Retiree Health Care Costs

On October 22, 2007 the Mayor and Council received an actuarial study that reflected the true cost of providing retirees from the City with health care benefits. This study explained that under GASB 45 the City is required to have a biannual actuarial valuation performed on its retiree health benefits. The valuation is performed so that an estimate can be made of the true accounting cost to provide the benefit, and to estimate the liabilities associated with the benefit.

Included in the October 22, 2007 report was a summary of the annual costs to the City as well as an estimate of what the City's liability is for providing the benefit. The annual cost to the City is significantly different depending on the funding method. One method requires that the City prefund the benefit. This means that every year the City will set aside funds in an irrevocable trust in order to pay out the benefits. Prefunding the total benefit will cost approximately \$1.3 million. Another method is that the City continues to fund on a pay-go basis, as is the current practice. This method would cost approximately \$60,000 annually.

Staff recommends that the City maintain the current benefit that is articulated in the City's Retirement Plan, and begin the process to set up an irrevocable trust fund to begin prefunding this benefit. Staff recommends that a funding plan over five years be implemented to ramp up the City's contribution to the trust until such time as full funding is achieved. For FY 2009, it is recommended that the City contribute \$261,400 to the trust.

#### Transfer to Capital Projects Fund

The CIP program is mainly funded from four components: debt, cash (pay-go transfer from the General Fund), government grants, and developer contributions. This year a Citywide prioritization program has been introduced to assist in allocating funding to various capital projects in the City's proposed CIP. The planned pay-go contribution for FY 2009 is \$4.0 million, which would be a \$1.6 million increase over FY 2008. In FY 2008 the planned \$4.0 million contribution was reduced to provide a property tax rate reduction. The pay-go contribution is critical to managing the City's overall debt, maintaining the City's credit rating, and ensuring that the City does not borrow excessively.

Excluding extraordinary circumstances that might justify exceptions, it is important that the City's debt is managed within the current guidelines and established target ratios. Any decision by the Mayor and Council to reduce the planned CIP transfer amount will impact the amount of money the City has to borrow and the target ratios. Continued shortages to the pay-go transfer can be prudently absorbed by deferring or eliminating projects. Unfunded capital needs for the current 5-year CIP are approximately \$28.4 million, not including funding for additional workspace needs.

It is also important to keep in mind when reviewing CIP projects that many have associated operating cost impacts. The operating cost impacts should be considered when deciding to proceed with the capital project or not. For FY 2009 the new ongoing operating costs of approved CIP's are projected at \$560,000.

Staff recommends \$4.0 million for the FY 2009 pay-go transfer, and that any reduction of this amount be accompanied by a reduction or deferment in CIP projects of an equal amount.

#### Transfer to the Parking Fund

The City constructed three parking garages as part of the Town Square redevelopment. In order to construct these garages, the City borrowed \$34.5 million and is committed to repaying \$2.1 million annually to service the debt. Every month that the City does not charge for parking it is estimated to cost approximately \$102,000 in lost revenue or \$1.2 million annually.

The current FY 2008 budget includes \$950,000 of General Fund money to support the parking enterprise. For FY 2008, it is estimated that parking fees will not be charged for at least six months increasing the gap from \$950,000 to approximately \$1.6 million. This illustrates the importance of parking fee revenues on the overall parking operations. Parking fee revenues are needed to support Parking Fund expenditures because in addition to debt service, the Parking Fund also supports 6.4 regular FTEs and the operating and contract service costs for the maintenance of the garages.

The Mayor and Council will receive a more detailed report concerning parking from CPDS staff who are working with Montgomery County to facilitate free library parking, and who will seek final direction from the Mayor and Council on monthly parking rates, which have yet to be implemented.

#### Town Center Shuttle Subsidy

The Town Center shuttle will become available to the public during FY 2009. The Mayor and Council have not yet decided whether to subsidize users of the shuttle at an annual cost beginning at \$150,000. For FY 2009 this cost would be \$125,000 due to the projected mid-year start of operations.

Staff recommends that the City does not subsidize operations and that users of the shuttle pay the same rates as all other Ride On users. Current Ride On rates are \$1.25 for regular fare, \$0.60 for seniors, and \$0.60 for the disabled.

#### Mayor and Council Goals and Priorities

The new Mayor and Council and the City Manager will have a retreat in mid-January 2008 to establish goals and priorities. Any significant changes to the City's priorities could impact resource needs not

currently planned for in the budget. The FY 2009 proposed budget will incorporate the financial and budgetary impacts of the goals and priorities established at the retreat.

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## **Fiscal Impact**

This presentation contains information that will impact both the revenues and expenditures of the upcoming Operating and Capital Improvements Program budgets. Staff will incorporate the policy direction and guidance of the Mayor and Council and determine the fiscal impacts of each decision throughout the budget development process.

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## **Next Steps**

The City Manager and the Budget Office will incorporate the policy direction and guidance of the Mayor and Council into the budget development process.

The City Manager and the Budget Office will come back to the Mayor and Council in mid-February to discuss the enterprise funds, utility rates, and any significant changes to the City's priorities as a result of the Mayor and Council retreat that will impact the resource needs of the FY 2009 budget. In addition, staff will update the Mayor and Council with new information, revenues and / or expenditures, that will impact the overall FY 2009 General Fund budget. The City Manager and the Budget Office will then incorporate any new policy direction and guidance of the Mayor and Council into the Proposed Operating and Capital Improvements Program budgets.

The FY 2009 Proposed Operating and Capital Improvements Program budgets will be presented to the Mayor and Council in late March 2008. Once the Proposed Budget is presented in March, two public hearings and two worksessions are scheduled to take place in April and May, with budget adoption scheduled for May 19, 2008.

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## **Attachments**

FY 2009 Budget Preview Presentation



FY2009\_BudgetPreviewPresentation\_111507.pdf

A handwritten signature in black ink, appearing to read 'G Cohen'.

Department Head: Gavin Cohen, Director of Finance  
Approval Date: 11/15/2007

A handwritten signature in black ink, appearing to read 'Scott Ullery'.

City Manager: Scott Ullery, City Manager

Approval Date: 11/16/2007

A hand is placing a puzzle piece into a larger puzzle. The puzzle pieces are shaped like puzzle pieces and feature a US dollar bill design. The visible text on the puzzle pieces includes "ESTABLISHED 1790", "UNITED STATES OF AMERICA", "8835503", "WASHINGTON, D.C.", "SERIES 2003", and "John U.". The background is a solid light green color.

# **City of Rockville, Maryland**

## **FY 2009 General Fund Budget Preview**

**November 26, 2007**



# Presentation Agenda

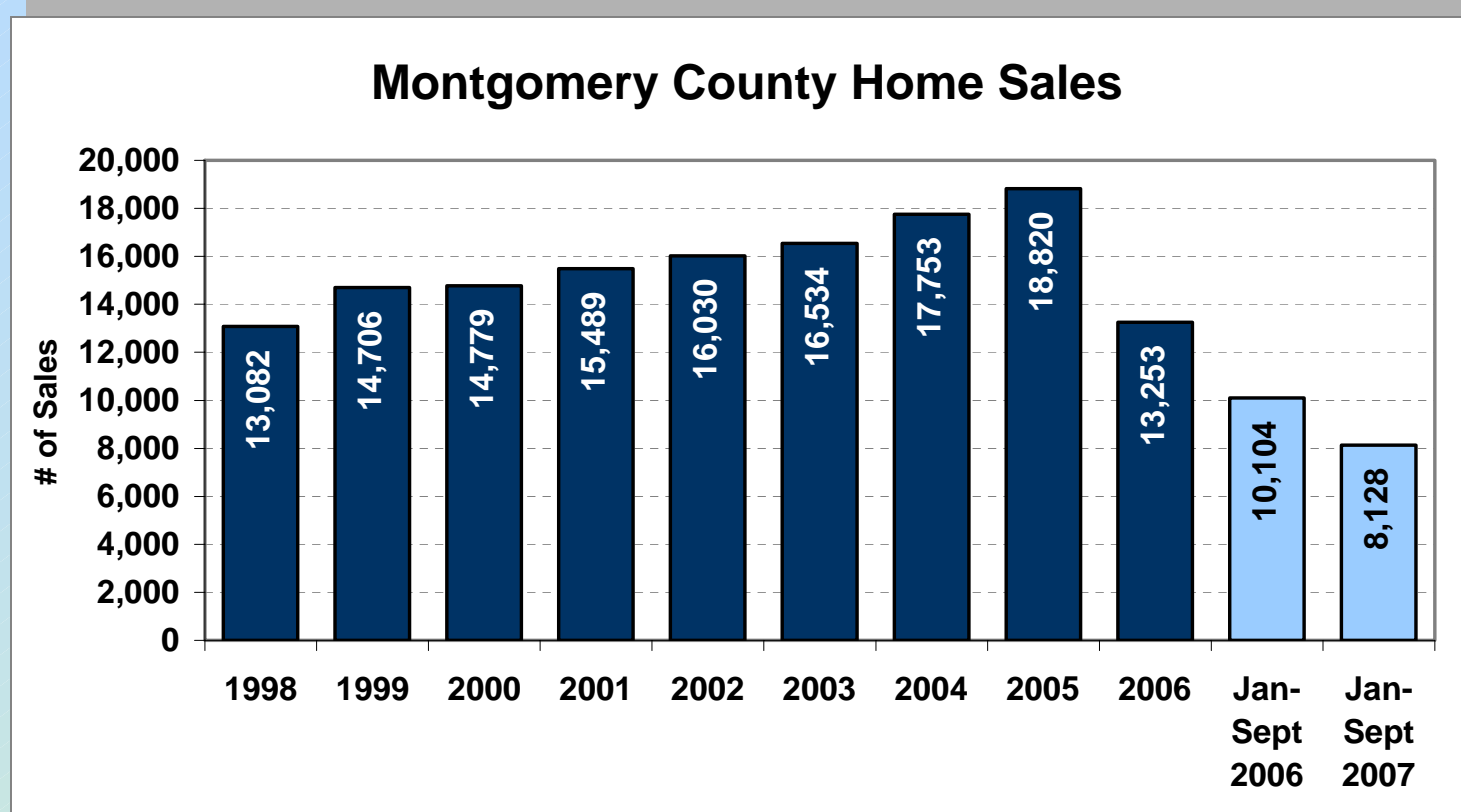
- ✓ Economic Overview
- ✓ Rockville's Population
- ✓ Budget Principles: Revenues
- ✓ Budget Principles: Expenditures
- ✓ Next Steps
- ✓ Mayor and Council Budget Calendar

# Employment

- ✓ Montgomery County's total **payroll employment grew by 5,800** (up 1.2%) over the 12-month period ending September 2007
- ✓ The **2.7% unemployment rate** for Montgomery County is well below the national average of 4.6% and State average of 3.9% as of September 2007
- ✓ Montgomery County **home sales declined 19.6%** from January to September 2007, while the average **home sale prices increased 4.4%** during this same period

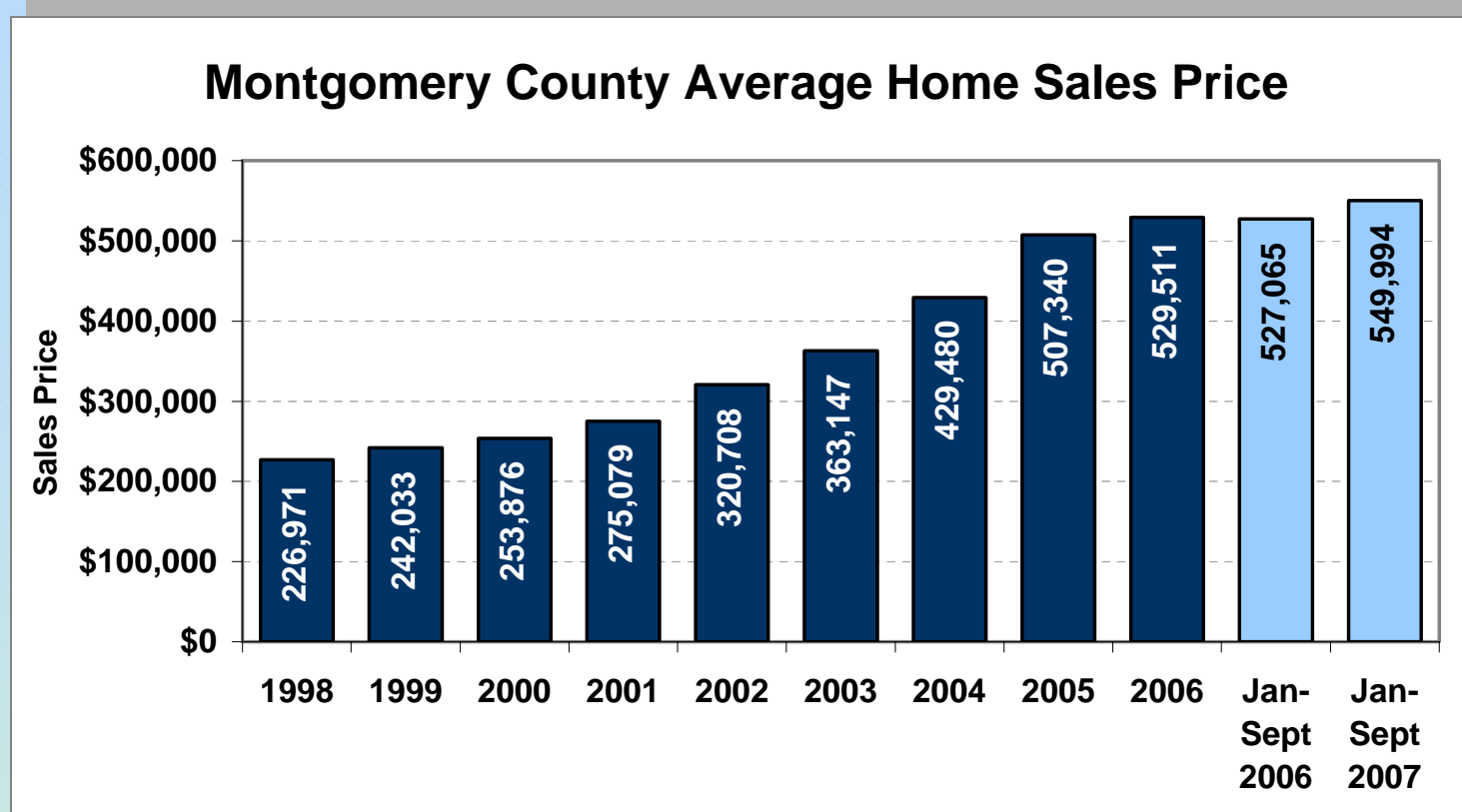
\* Source of Economic Indicators: Montgomery County, Maryland, Department of Finance, Quarterly Economic Indicator Report September 2007.

# Home Sales



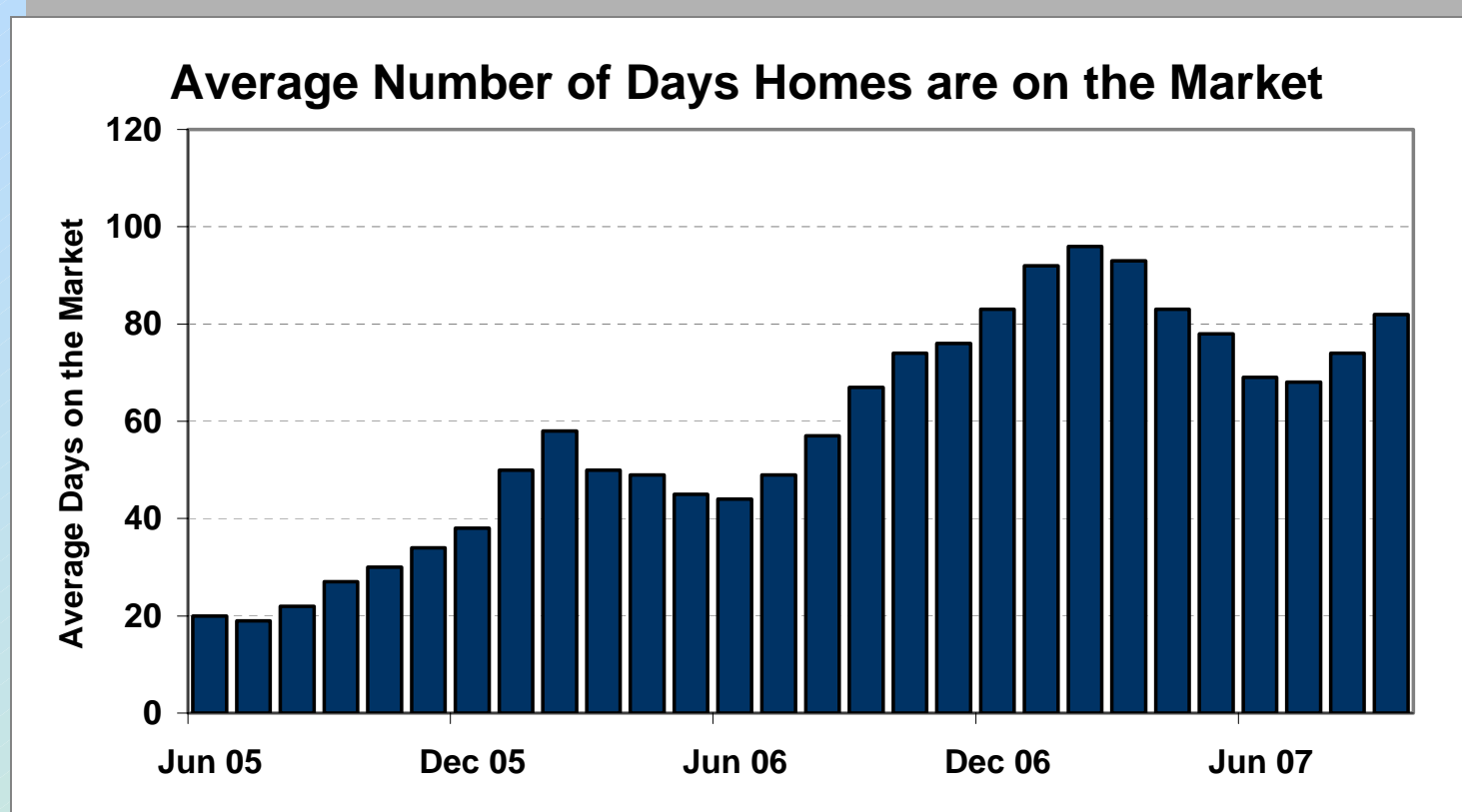
Source: Montgomery County Department of Finance

# Average Home Sales Price



Source: Montgomery County Department of Finance

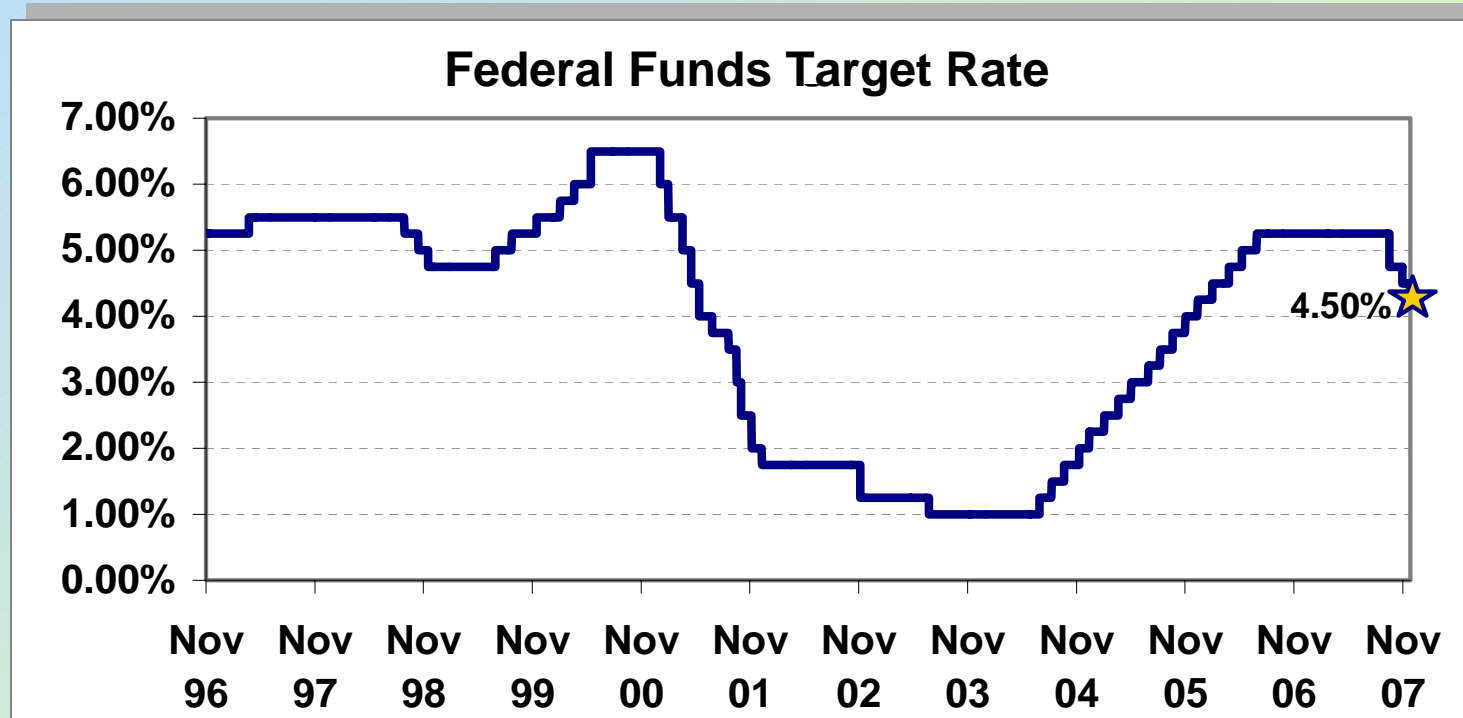
# Average Days on the Market



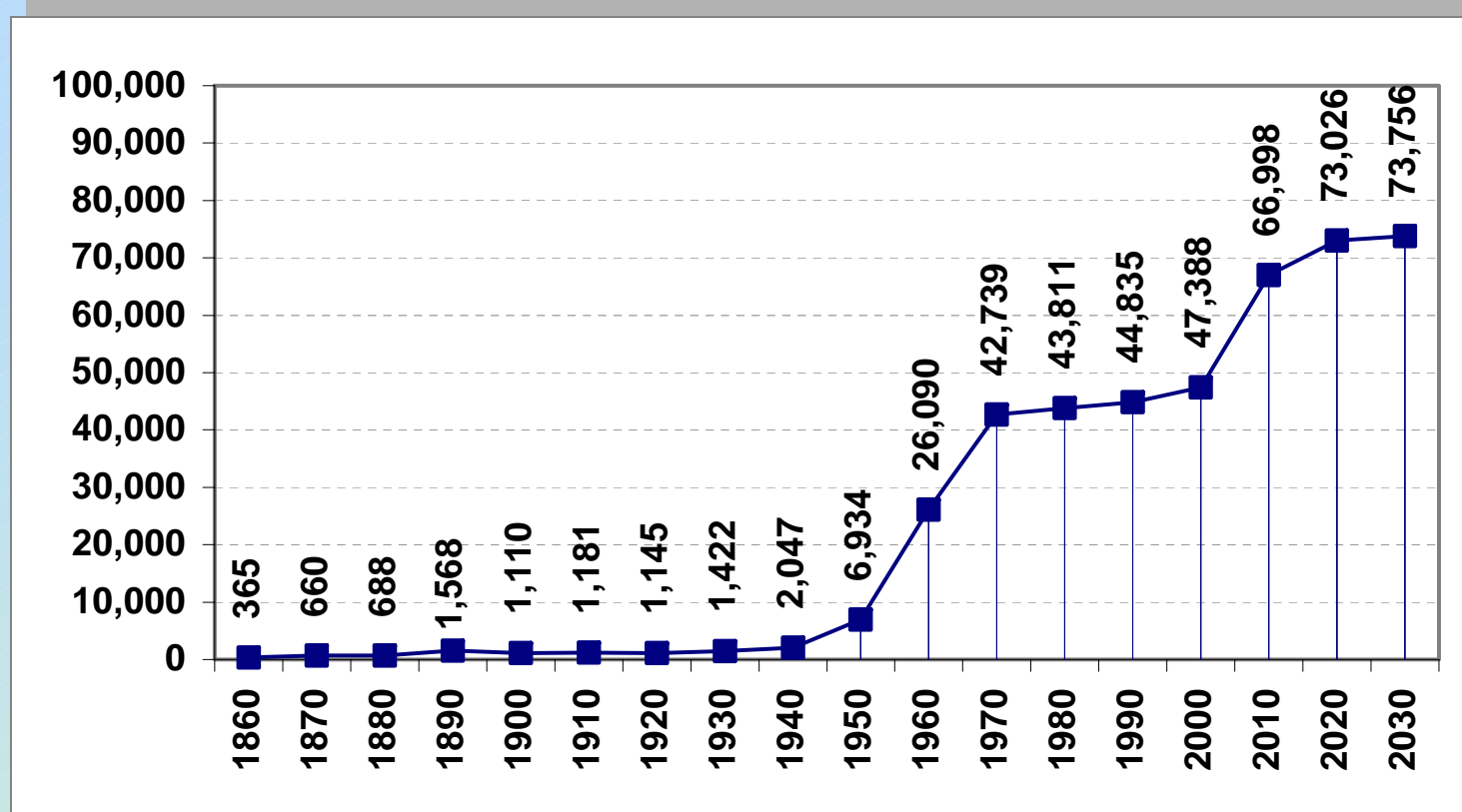
Source: Montgomery County Department of Finance

# National Economy

- ✓ Core inflation remains stable, however energy and commodity prices will likely increase inflation
- ✓ Pace of economic expansion will likely slow, partly reflecting the correction in the housing market



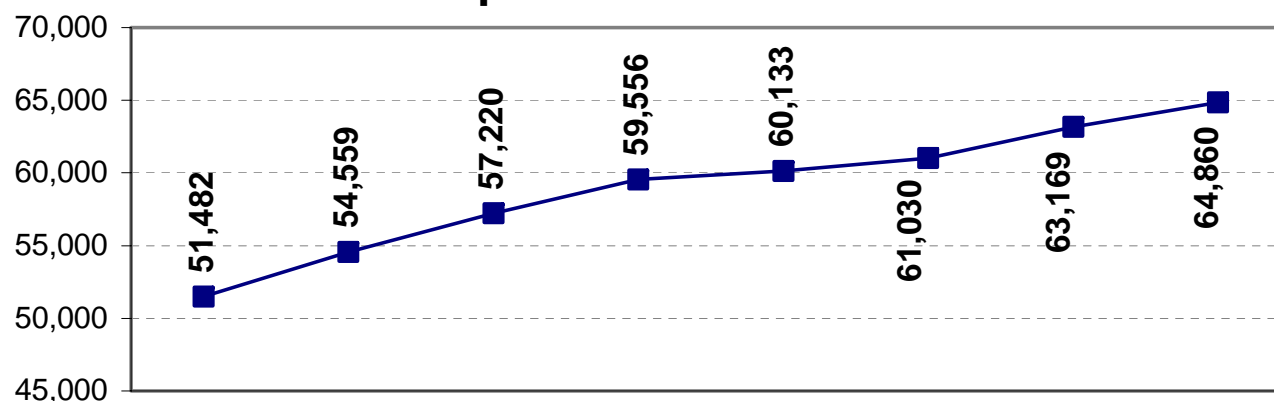
# Rockville's Population: 2008 est. 63,169



Source: City of Rockville Department of Community Planning and Development Services, October 2007.

# Rockville's Population (cont.)

Population 2002 - 2009

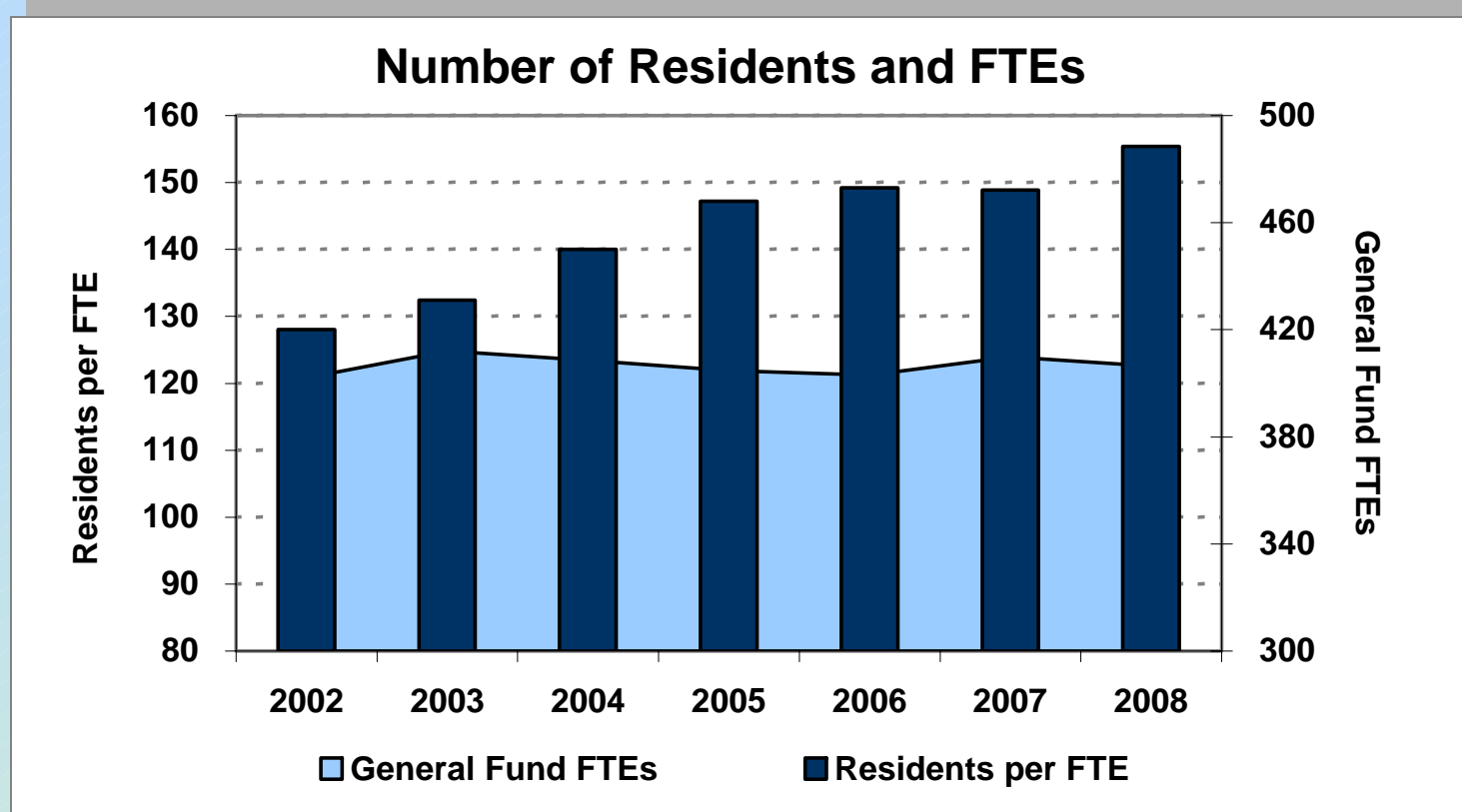


	2002 Actual	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Actual	2008 Current	2009 Projected
% Annual Population Growth	2.9%	6.0%	4.9%	4.1%	1.0%	1.5%	3.5%	2.7%
General Fund Exp. Per Capita*	\$987	\$912	\$847	\$835	\$929	\$1,008	\$1,038	\$962
% Annual General Fund Exp. Growth	10.9%	-7.6%	-7.1%	-1.4%	11.3%	8.5%	3.0%	-7.3%
General Fund Regular FTEs	402.1	412.0	408.6	404.7	403.0	409.9	406.4	?
% Annual General Fund FTE Growth	1.6%	2.5%	-0.8%	-1.0%	-0.4%	1.7%	-0.9%	?
Residents per FTE	128.0	132.4	140.0	147.2	149.2	148.9	155.4	?

\* General Fund expenditures per capita are shown in 2007 dollars.



## Rockville's Population (cont.)



# Budget Document

## GFOA Distinguished Budget Presentation Award

### Policy Document

describes financial and operating policies, goals, and priorities for the City

### Financial Plan

provides revenue and expenditure information by fund, department, division, category

### Operations Guide

describes activities, objectives for the FY, performance / workload measures

### Comm. Device

provides information on budgetary trends, planning processes, relationship between operating and CIP

*"I have presented seminars on the importance of effective budget communication and I can see your document provides me with countless examples" – GFOA Reviewer*

# Budget Principles: Revenues

- ✓ FY 2009 Estimated General Fund Budget: \$62.4 million
- ✓ FY 2009 revenues are estimated conservatively to ensure that sufficient revenues are available throughout the year to support FY 2009 expenditures
- ✓ Major Sources of General Fund Revenue:
  - Property Taxes: increase \$2.5 million to \$34.5 million
  - Income Taxes: increase \$1.0 million to \$9.3 million
  - Highway User: unchanged at \$3.2 million
  - Tax Duplication: unchanged at \$2.2 million
  - Other Revenue: maintain cost recovery and look for opportunities to enhance user fees; look for new revenue sources

# Budget Principles: Revenues (cont.)

- ✓ State of Maryland Budget Shortfall
  - Possible Direct Impact:
    - ✓ Highway User
    - ✓ Police Protection
    - ✓ Program Open Space
  - Possible Indirect Impact:
    - ✓ Tax Duplication
    - ✓ County Grants

# Budget Principles: Expenditures

- ✓ FY 2009 proposed budget will be prepared based on the following budget principles:
  - Maintaining Program / Service Levels
    - ✓ Maintain current City programs and services
    - ✓ Implement Mayor and Council priorities
    - ✓ Comply with State and federal mandates
  - Investment in Additional Workspace
  - Commodity / Supply Price Increases
  - Salaries and Benefits
    - ✓ COLA, merit, pay-for-performance, \$1.1 million
    - ✓ Compensation and benefits survey results
    - ✓ Union contract / FOP meet and confer

## Budget Principles: Expenditures (cont.)

- ✓ Budget principles (cont.):
  - Retiree Health Care Costs (GASB 45), \$261,400
  - Pay-go transfer to CIP, \$1.6 million above FY 2008
  - Operating cost impact of CIP, \$560,000
  - Continue to fund gap between parking garage revenues and debt service
  - No fare subsidy for Town Center shuttle

<b>New Estimated Revenues</b>	<b>3,500,000</b>
<b>COLA, Merit, Pay-for-Performance</b>	<b>(1,100,000)</b>
<b>Retiree Health Care Costs</b>	<b>(261,400)</b>
<b>Pay-go Transfer to CIP</b>	<b>(1,600,000)</b>
<b>Operating Cost Impact of CIP</b>	<b>(560,000)</b>
<b>TOTAL</b>	<b>(21,400)</b>

## Next Steps

- ✓ Staff will incorporate the policy direction and guidance of the Mayor and Council into the budget process
- ✓ Mayor and Council budget preview in mid-February to discuss:
  - Enterprise Funds – Water, Sewer, Refuse, Stormwater Management, Parking, RedGate
  - Utility Rates
  - City priorities as established at the January Mayor and Council retreat
  - New revenue and expenditure information that will impact the overall FY 2009 budget

# Budget Calendar

<b>February 11, 2008:</b>	Mayor and Council Budget Preview
<b>March 24, 2008:</b>	Presentation of Proposed Budget Introduction of Ordinances/Resolutions
<b>March 31, 2008:</b>	Public Hearing #1 Constant Yield Tax Rate
<b>April 14, 2008:</b>	Public Hearing #2
<b>April 28, 2008:</b>	Mayor and Council Worksession #1
<b>May 5, 2008:</b>	Mayor and Council Worksession #2
<b>May 19, 2008:</b>	Budget Adoption